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Backgrounder:

Promoting Stability and Prosperity Through Free Trade in the Americas

Trade is an engine of economic growth. It uses the power of markets to meet the needs of the poor. In our lifetime, trade has helped lift millions of people, and whole nations, and entire regions, out of poverty and put them on the path to prosperity.

History shows that as nations become more prosperous, their citizens will demand, and can afford, a cleaner environment. And greater freedom for commerce across the borders eventually leads to greater freedom for citizens within the borders.

— President Bush, signing ceremony of the “Bipartisan Trade Promotion Authority Act,” August 6, 2002

Introduction

Stability and prosperity throughout the Americas are essential to U.S. national security and economic interests. At a time of heightened focus on threats to our homeland security, the need for increased U.S. engagement in the Western hemisphere to deepen partnerships with our neighboring countries has never been greater. Ensuring that democratically-elected governments and free market policies, and not military dictatorships and command economies, remain the norm throughout the hemisphere should be a top priority of both the Bush Administration and Congress.

When President Ronald Reagan took office in 1981, the majority of Latin Americans lived under authoritarian or Communist rule. Within a decade, every country — with the notable exception of Cuba — had held free elections and had instituted free market and democratic reforms. Consider the shining example of Chile, which ended 17 years of military government in 1990 and is now in the final stage of entering a free trade agreement with the United States. Its political and economic successes have served as a model for economic and political reform as well as a force for stabilization in the region.

And while the 1990s witnessed the unfolding of democracy previously unseen in Latin America, several developments in recent years have emerged that highlight cause for concern regarding the continued consolidation of these democratic and economic achievements. For example, the continuing drug war and escalating political violence in Colombia — including the kidnapping of elected officials there — threatens that country's stability. The economic collapse in Argentina and ensuing political instability has raised doubt that the democratically elected leaders can resolve the crisis. Continued political consolidation of power by President Hugo Chavez has raised red flags as to the future of democracy in Venezuela. Declining popular support for President Alejandro Toledo and the resurgence in terrorist activities by the Shining Path have heightened concerns about the political stability of Peru.

More broadly, narcoterrorism, autocratic rule, violent crime, chronic poverty, unemployment, and governmental corruption have disenchanted some Latin Americans with democracy and free market policies.

The opportunities for improving the economic and political situation in the Western hemisphere are bountiful. The Bush administration places considerable value on America's hemispheric relations, and is dedicated to making trade, growth, and stability in Latin America one of its top priorities. The White House regards sustained U.S. engagement in the region in "trade, in security in support for democracy, and across the board" as key to "expanding peace, prosperity, and freedom" throughout the Americas.¹ These are the fundamental components of President Bush's foreign policy agenda to support and aid countries struggling to carry out political, institutional, and economic reforms and meet the interests of their people.

Economic Disenchantment

According to the U.N. Development Program (UNDP), the decade of the 1990s saw "considerable diversity in growth and poverty-reduction experiences across Latin America and the Caribbean," with most countries seeing positive, yet modest, rates of growth in per capita Gross Domestic Product (GDP).² However, not all countries experienced positive growth; and inequality of income distribution throughout the hemisphere remained a serious problem, preventing millions from improving their standard of living. Moreover, the UNDP study found that Latin America and the Caribbean consistently recorded the "highest average level of inequality for any region in the world."³

¹ Treasury Secretary John Snow, remarks to the Hispanic Business Roundtable, May 19, 2003.

² United Nations Development Program, "Meeting the Millennium Poverty Reduction Targets in Latin America and the Caribbean," December 2002.

³ United Nations Development Program, December 2002.

The lingering economic downturn and political volatility throughout the region has fostered fluctuating attitudes toward democracy throughout much of Latin America. A recent poll of 17 nations found that 55 percent of Latin Americans prefer democracy to authoritarian rule, up from 48 percent in 2001, but down from 60 percent in 2000.⁴ Of all Latin Americans, the people of Central America remain the most disenchanted, where satisfaction with “the way democracy works” in their respective country averages about 30 percent.

While “democracy is holding up” in Latin America, the *Economist* reported that “polls show people to be deeply dissatisfied with its failure to bring jobs, improve living standards, or tackle violent crime.”⁵ The dissatisfaction appears to stem mainly from specific discontents with how the public sector was privatized. Everywhere except Uruguay, a majority of respondents still believe that the market economy is best for the country.

America’s Role in the Promotion of Free Trade

The Bush Administration and Congress agree that it is crucial to U.S. economic and political interests for America to respond to these rising hemispheric challenges by redoubling its efforts to provide incentives for governmental accountability and economic prosperity to the people of Latin America. Free trade is one of the key instruments the United States can employ in helping to bolster economic prosperity, promote democratic consolidation, and provide for U.S. security. As the White House stated in the September 2002 National Security Strategy document:

A strong world economy enhances our national security by advancing prosperity and freedom in the rest of the world. Economic growth supported by free trade and free markets creates new jobs and higher incomes. It allows people to lift their lives out of poverty, spurs economic and legal reform and the fight against corruption, and it reinforces the habits of liberty.

Not only will enhanced trade help combat anti-democratic forces, but it will also allow for the citizens of Latin America to become economically empowered. Through economic empowerment, citizens will no longer be at the mercy of anti-democratic, despotic regimes aimed only at advancing their own selfish agendas.

The Economist, in its recent survey of capitalism and democracy, noted a common factor of countries that successfully raised their living standards and sustained

⁴ *The Economist*, “Democracy Clings on in a Cold Climate,” August 15, 2002. For additional information, see opinion poll data from *Latinobarometro*, an annual public opinion survey carried out in 17 Latin American countries by the CORPORACIÓN LATINOBARÓMETRO, <http://www.latinobarometro.org/English/iniarticulos-i.htm>

⁵ *The Economist*, August 15, 2002.

them over long periods: “What they have had in common . . . has been a policy of opening their economies to trade and to foreign capital.”⁶ *The Economist* notes that after World War II, those countries, including the United States, that signed on to the General Agreement on Tariffs and Trade (GATT) succeeded in increasing per capita income by an average of fourfold from 1950-2001. Non-GATT countries only witnessed a three-fold increase.⁷ *The Economist* also notes that countries that have reduced trade barriers tend to be more globalized as well as more democratic.

Congress has encouraged Latin America to reduce trade barriers and increase the speed of trade liberalization in the region. During the past decade, Congress has approved numerous free trade measures including NAFTA, the U.S.-Jordan Free Trade Agreement, and the Andean Trade Act. Moreover, in 2002, Congress reinstated Trade Promotion Authority, which gives the President the ability to negotiate free trade agreements in consultation with Congress and submit them to Congress for consideration under expedited procedures.

As a means of improving the economic livelihood of the peoples of Latin America and bolstering the U.S. economy, the Bush Administration and Congress have placed top priority on actively promoting free trade in the region with such initiatives as a free trade agreement with Chile — thus expanding the North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico — as well as a Central American Free Trade Agreement (CAFTA), and a hemispheric Free Trade of the Americas Agreement (FTAA).

Two Ends of the Freedom Spectrum

Chile

With the passage of the U.S.-Chile Free Trade Agreement (FTA), Congress is taking a big step in recognizing the hard work that this country has made reforming its political and economic structures. Since the Chilean people threw off the cloak of military dictatorship in 1990, Chile has embraced democratic and free market reform, and has had one of the strongest economies in the Americas. Growth in real GDP averaged 8 percent during 1991-97. And after Chile implemented tight monetary policies and experienced a slowdown in economic growth during the late 1990s global recession, Chilean GDP has rebounded in recent years to an average growth rate of more than 5 percent.

In addition to its economic successes, Chile has made dramatic progress in undertaking political, social, and legal reforms. The U.S. State Department and numerous non-governmental organizations, such as Freedom House and Amnesty

⁶ *The Economist*, “A Survey of Capitalism and Democracy,” June 28, 2003.

⁷ *The Economist*, June 28, 2003.

International, have praised the Chilean government for its human rights and democratic practices.

Cuba

Republicans hold the line at not extending free trade benefits to the countries that do not respect the rule of law or embrace democratic practices. Specifically, this refers to the island nation of Cuba, which has been under the heavy, brutal hand of dictator Fidel Castro since 1959.

Cuba remains a bastion of repression and a blight to the western hemisphere. During the past year, Castro's regime has displayed some of the most despicable acts of political repression witnessed in more than a decade. While democratic movements in other Latin American countries point towards greater freedom, peace, and prosperity, Castro's government has increasingly shown signs of retreating into Stalinism, further testing the fundamental dignity of the Cuban people.

In his most severe crackdown since the 1960s, Castro brutally smashed the island's small but growing democracy movement. On March 18, 2003, asserting that they were being incited by America, Castro added to the hundreds of political dissidents already imprisoned and arrested at least 78 democracy and human rights advocates of independent Cuban civil society. The Cuban government initiated a series of summary trials and convicted civil rights activists for being civil rights activists, economists for being economists, and journalists for being journalists, simply for speaking out and demanding their rights of assembly. On April 11, Castro ordered a firing squad to execute three men who hijacked a Havana ferry in an unsuccessful attempt to reach Florida.

Coupled with his harsh onslaught against political dissidents and potential enemies, Castro's state-controlled system has wreaked tremendous economic havoc. The economy is clinging to survival as the government's ability to allocate basic goods, decent medical services, and educational opportunities continues to diminish. Castro's regime remains intent on sacrificing Cuba's future economic productivity in order to gain access to short term, high-interest lines of credit to make it past another day.

Contrary to what some think, under current U.S. law American companies are allowed to sell goods to Cuba. However, such transactions must be conducted on a cash-only basis. During recent years, there has been a movement by some in Congress to allow the Castro regime to purchase U.S. agricultural goods and medicines through the use of credits. These attempts repeatedly have been defeated. The Bush Administration has urged Congress to continue to deny Castro access to American goods and services via any means other than a cash-only basis. To do so in any other form would constitute a propping up of this corrupt, anti-democratic regime. Moreover, it would send a contradictory signal to U.S. allies in Latin American that the United States does not value

the efforts they have taken to enact true political, social, economic, and legal reform so as to respect the rule of law and the rights of their people.

Conclusion

In the last years of the 20th century, the world witnessed many nations take great steps towards democratization, liberalization of markets, reduction of trade barriers, and increased free and frequent flow of goods and services across borders. Such actions showed those nations' willingness and desire to move forward in the quest for democracy and economic freedom. To ensure this continues, the United States must not relent on promoting democratic ideals and principles. Promoting trade is an important component, as well as one of America's most valuable tools, in bringing about economic stabilization and democratization in Latin America and around the world.